



County of Los Angeles
CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
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WILLIAM T FUJIOKA
Chief Executive Officer

December 2, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**TECHNICAL CHANGES TO THE 401(K) SAVINGS PLAN AND OTHER
COUNTY CODE CHANGES NECESSARY TO MAINTAIN COMPLIANCE WITH
FEDERAL TAX LAW
(ALL SUPERVISORIAL DISTRICTS)
(3 VOTES)**

SUBJECT

The accompanying ordinance makes technical amendments to the County's 401(k) Savings Plan to accommodate a new form of investment option known as a "Self-Directed Brokerage Account." This ordinance also codifies other changes necessary to conform County Code provisions with the requirements of federal tax law and related Internal Revenue Service (IRS) regulations. These changes pertain to non-represented employees only and are purely technical in nature. They pose no additional County cost.

IT IS RECOMMENDED THAT YOUR BOARD:

Adopt the accompanying ordinance amending the 401(k) Savings Plan to permit the implementation of a Self-Directed Brokerage Account and make other changes necessary to maintain County Code compliance with federal tax law and related IRS regulations.

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The 401(k) Savings Plan Administrative Committee (PAC) is responsible for the administration of the Plan, including the selection of the investment options made available to participants. The PAC has adopted a new investment model that provides three unique investment vehicles: Target Date Funds, Asset Class Funds, and a Self-Directed Brokerage Account. The underlying fund managers for the Target Date Funds and Asset Class Funds are selected and monitored by the PAC according to an investment policy and other criteria adopted by the PAC. Communications material on these new options was recently disseminated to all Plan participants. Educational "workshops" were also held throughout the County.

The Self-Directed Brokerage Account provides participants with the opportunity to invest in securities not otherwise available through the Plan. This includes individual stocks and bonds of publicly traded companies on the major exchanges as well as other mutual funds not currently provided through the plan. Certain investment vehicles will be excluded, however, if not permitted by law or if otherwise inappropriate for a plan of this type. This would include, for example, leveraged investments where the potential for loss may be greater than an individual's account balance. Also excluded are investments in options, futures, currencies, and other speculative investments. The PAC has the discretion to place restrictions on these and other forms of investments as it deems appropriate.

The Self-Directed Brokerage Account is clearly an option geared toward the more experienced and knowledgeable investors who understand the risks involved. The PAC's communications efforts on this program have emphasized this point. Moreover, each investor must agree to assume all risk as a condition of participating in this option. The amendments included in the accompanying ordinance codify the changes in administrative procedures and other changes to the "plan document" that are necessary to implement this change.

An identical Self-Directed Brokerage Account option will also be extended to represented employees through the 457 Horizons Plan. We will be returning to your Board with similar, but separate recommendations for County Code amendments affecting that plan at a later date. We intend to make actual implementation of this new option in both the 401(k) Savings Plan and 457 Horizons Plan occur simultaneously following your Board's adoption of all of the necessary County Code changes for both programs.

The accompanying ordinance makes other housekeeping changes necessary for the efficient operation of the 401(k) Savings Plan or to maintain compliance with federal tax law. For example, the ordinance identifies Roth IRA's as an eligible form of retirement plan to receive rollover distributions, and it clarifies language relating to federally imposed annual contribution limits for 401(k) plans. In addition, this ordinance amends existing County Code provisions relating to termination pay for County officers, and other non-represented employees compensated as County officers, by clarifying when a termination from County service has occurred and by when any final termination pay must be disbursed. This, too, is necessary to conform the relevant County Code provisions to current tax law and related IRS regulations. This will cause no substantive change in any existing pay policy or practice.

FISCAL IMPACT/FINANCING

None. The cost of administering the 401(k) Savings Plan is fully paid by fees charged to Plan participants. The costs of administering the Self-Directed Brokerage Account will likewise be fully paid by the participants who make use of that particular option.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Savings Plan is a tax-favored retirement plan that must comply with existing tax law and regulatory requirements, including the requirement that the Plan document and Plan operations be consistent. County Code Section 5.26 serves as the federally required plan document for the Savings Plan and it must be amended when necessary to maintain compliance with the law. The proposed amendment will update the plan document to reflect the brokerage window enhancement and other IRS required technical changes.

The accompanying ordinance has been approved as to form by County Counsel.

The Honorable Board of Supervisors
December 2, 2008
Page 4

IMPACT ON CURRENT SERVICES (OR PROJECTS)

None.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'WTF', followed by a stylized flourish.

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:DL
WGL:DT:df

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
DHR
Savings Plan Administrative Committee